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FM AMEMBASSY DAMASCUS
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6728
INFO RUEHEE/ARAB LEAGUE COLLECTIVE IMMEDIATE
RUEHAK/AMEMBASSY ANKARA IMMEDIATE 4238
RUEHTV/AMEMBASSY TEL AVIV IMMEDIATE 0743
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
RHMFISS/HQ USCENTCOM MACDILL AFB FL IMMEDIATE
RHEHNSC/NSC WASHDC IMMEDIATE
RHEHAAA/WHITE HOUSE WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 000290

SIPDIS

SIPDIS

NEA/ELA
TREASURY FOR GLASER/LEBENSON
NSC FOR ABRAMS/DORAN/SINGH
EB/ESC/TFS FOR SALOOM

E.O. 12958: DECL: 01/26/2016

TAGS: [ECON](#) [EFIN](#) [SY](#) [LE](#)

SUBJECT: SARG ABRUPTLY RAISES PRICE OF GASOLINE, CEMENT

REF: A. DMS 6367

[1](#)B. DMS 0005

[1](#)C. DMS 4977

Classified By: Charge d'Affaires Stephen Seche, reasons 1.4 b/d.

[1](#)1. (C) Summary: Without prior warning, the SARG increased prices for gasoline and cement on January 25, claiming in state-owned dailies that it was a necessary step to stop smuggling and black market trading in both commodities. The price hikes, which were not accompanied by a concomitant increase in public sector wages, come in the context of indications that the SARG is confident enough to take politically costly economic moves. While the increase in gasoline prices could be considered part of the SARG's previously announced plan to lower subsidies and tackle smuggling, the increase in the price of cement at first glance appears most likely to benefit the corrupt classes in Syria's economy at the expense of encouraging continued Gulf investment in Syria's tourism and real estate sectors. End summary.

[1](#)2. (SBU) On January 25, the SARG raised the price of gasoline and cement by 25% and 52%, respectively. The price for a liter of gasoline rose from just over 24 Syrian pounds (SYP) to 30 SYP (USD 55) per liter, while the price for a ton of cement rose from 4,300 SYP to 6,500 SYP (USD 120). Contacts commented that the timing of the price hikes violates standard SARG procedures, as the SARG usually precedes any change in the price of commodities with an increase in public-sector wages. The SARG announced the price hikes in state-owned press this morning, one day after implementation, stating that the increases were necessary to stop smuggling of both commodities; stifle demand for gasoline, which grew at 17% during 2005 (faster than the rate of car ownership); bring prices in line with the high international price for oil; and eliminate the black market for cement.

[1](#)3. (SBU) Contacts seemed to take the increase in gasoline prices in stride, claiming that the SARG had to do it sooner or later to address budgetary pressures and stop gasoline smuggling into neighboring countries. (Note: The new gasoline price reduces by half, to 120 SYP (USD 2.22), the amount a smuggler to Lebanon could earn on 20 liters of gasoline. Contacts report, however, that despite the price increase, smugglers still can make more than USD 3.00 on the same quantity in Jordan, and more than USD 25.00 in Turkey.

End Note.) Basil Hamwi, the General Manager of Bank Audi Syria and unofficial advisor to Deputy Prime Minister for Economic Affairs Abdallah Dardari, claimed that although the surprise action further highlights the SARG's lack of a transparent timeline or decision-making process on reform, the most hopeful analysis is that it is the first step in Dardari's plan to reduce subsidies, which he announced on November 7 (ref A). Hamwi further stated that he expects an increase in the price of diesel to follow in the spring, which he opined is a much larger budgetary and political problem that needs to be addressed.

14. (C) Contacts had a more difficult time, however, understanding the increase in the price of cement. They stated that the increase did not fit with Dardari's announced plan to equalize domestic and regional prices through a gradual reduction in subsidies. In addition, the hike did not address adequately the fact that Syria consumes annually three million tons of cement more than it produces, a persistent economic problem that promises to hamstring continued development in the tourism and real estate sectors.

According to Vaskan Yacoubian, General Manager of a major Damascene construction firm, he and his colleagues had been expecting the SARG to take the opposite action and lower the price of domestically-produced cement through a reduction in the 1,500 SYP (USD 27 USD) tax on imported cement. The new price, however, is 2,160 SYP (USD 40) higher than the price in neighboring countries. Yacoubian added that his firm was preparing to renegotiate upwards all of its contracts on pending construction based on the new price. In addition, he thought, the price hike would have a negative effect on the Gulf investors who have yet to begin construction on any of the projects that the SARG has announced lately with great fanfare (ref B).

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15. (C) Comment: As contacts were quick to point out, the SARG forecasted the increase in gasoline prices, and it comes in the context of indications that the SARG is confident in its economic position, having recently stabilized its currency for at least the time being (ref C). Contacts at the European Union's mission in Damascus stated that Deputy PM Dardari's own behavior exemplifies the newfound SARG self-confidence by implying the regime can manage its economy without outside assistance. The increase in the price of cement also reminds that the SARG's economic management remains short-sighted and ad-hoc, and geared toward benefiting the corrupt classes. There are many powerful and well-connected players in the cement and construction sector, including Mohammad Hamsho, Dhu al Himma Shaleesh, and Rami Makhloof, who all stand to benefit mightily from the price increase. The Gulf investors are potential losers, as Syria's chronic cement shortage will likely now get more acute.

SECHE